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ABSTRACT

In a study requested by Senator Paul Simon and Representative Edolphus Towns, updated information on student loan default rates at Historically Black Colleges and Universities (HBCU) were obtained and examined. In particular the study compared 1991 default rates with earlier years, updated estimates of HBCUs that might lose Federal Family Education Loan (FFEL) Program eligibility, and estimated the numbers of HBCUs with cohort default rates over thresholds for Department of Education initiation of sanctions. The data for the study were from fiscal years 1988 through 1991. Findings include the following: (1) more recent default rates had little impact on estimates of the number of HBCUs that might become ineligible for FFELs as these still indicate that about 33 of 104 could lose their eligibility in July, 1994; (2) estimates show that 41 schools with default rates of 25 percent or more could be subject to state review of their continuing eligibility for student aid under title IV, an improvement on earlier estimates of 62 schools; and (3) about two-thirds of 104 HBCUs had fiscal year 1991 cohort default rates above 20 percent, triggering possible Department of Education sanctions requiring those institutions to analyze causes of their students' defaults and requiring them to describe their efforts to reduce defaults. (JB)

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[DEFAULT RATES AT HISTORICALLY BLACK COLLEGES AND UNIVERSITIES]

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Human Resources Division

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March 9, 1994

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The Honorable Edolphus Towns
Chairman, Subcommittee on Human Resources
and Intergovernmental Relations
Committee on Government Operations
House of Representatives

The Honorable Paul Simon
United States Senate

This letter responds to your requests to update information previously reported on student loan default rates at Historically Black Colleges and Universities (HBCU).[1] As agreed with your offices, our objectives were to

-- compare fiscal year 1991 HBCU cohort default rates with cohort default rates in prior years;

-- update our earlier estimates of the number of HBCUs that, as a result of high cohort default rates, could either lose their eligibility for the Federal Family Education Loan (FFEL) Program or have their eligibility for all student aid authorized by title IV of the Higher Education Act of 1965, as amended, subjected to a state review; and

-- estimate the numbers of HBCUs with cohort default rates above thresholds established by the Department of Education to initiate sanctions that would limit, suspend, or terminate their participation in student aid programs.

In general, the cohort default rate is the percentage of an institution's Federal Stafford loan (subsidized and unsubsidized) and Supplemental Loans for Students (SLS) borrowers who enter repayment status in a fiscal year and default by the end of the following fiscal year. Stafford, Federal Parent Loans for Undergraduate Students (PLUS),

[1]Student Loans: Default Rates at Historically Black Colleges and Universities (GAO/HRD-93-117FS, Aug. 19, 1993).

Federal Parent Loans for Undergraduate Students (PLUS), and, until July 1994, SLS loans are provided under the FFEL Program.

The cohort default rate is defined differently for institutions where fewer than 30 borrowers enter repayment status in a fiscal year. The Department uses one definition of cohort default rate with respect to students attending such institutions who entered repayment status before fiscal year 1991, and another for those entering repayment in fiscal year 1991 and thereafter. The Higher Education Amendments of 1992 defined the rate to be used for those borrowers entering repayment in fiscal year 1991 and later as the percentage of borrowers entering repayment in the three most recent fiscal years who defaulted before the end of the fiscal year immediately following the year in which they entered repayment. Previously, the rate for these institutions was the average of the single-year cohort rates calculated for each of the three most recent fiscal years.

In our previous work we relied on default data for borrowers who entered repayment status in fiscal years 1988 through 1990 (the 1988, 1989, and 1990 cohorts). This was the latest data available. With an additional year's data now available, the information presented here reflects default data for those borrowers who had entered repayment status through fiscal year 1991. The Department does not plan to use the new cohort default rate definition for institutions with fewer than 30 borrowers to recalculate default rates for previous cohorts. In its assessment of institutions' eligibility after July 1, 1994, the Department plans to use the earlier definition for the fiscal year 1990 cohort and the new definition for later cohorts. Accordingly, our calculations rely on the earlier definition for the fiscal year 1990 cohort and the new definition for the 1991 and later year cohorts.

The law provides that schools with cohort default rates for both Stafford and SLS loans above statutory thresholds in each of three consecutive fiscal years could become ineligible for all FFEL loans. The law also exempts HBCUs, tribally controlled community colleges, and Navajo community colleges from these default requirements until July 1, 1994.

As agreed, we did not attempt to verify the default rate data. And as you know, many schools have filed appeals challenging the accuracy of the Department's default rates and remain eligible for the FFEL Program while their challenges are pending. If the legislative exemption

expires and the thresholds are applied to HBCUs, some of them with high default rates may be able to retain their eligibility after July 1994 by challenging the accuracy of the Department's default rates.

POSSIBLE LOSS OF ELIGIBILITY FOR FFELs

The use of more recent default rates had little impact on our estimates of the number of HBCUs that could become ineligible for FFELs. Each year, the Department uses the most recent 3 years of available cohort default rates to assess an institution's eligibility. After the exemption provided HBCUs expires in July 1994, the Department plans to assess their eligibility, as it will for all institutions, by using cohort default data for fiscal years 1990 through 1992. The estimates we reported in August 1993 were based on cohort default rates for fiscal years 1988 through 1990. Our updated analyses are based on cohort default rates for fiscal years 1989 through 1991.

As shown in table 1, if recent HBCU default rates persist, 33 of the 104 HBCUs could lose their eligibility in July 1994, the same number of schools we estimated earlier.[2] If the default rate threshold were raised from 25 percent--the rate the Department will apply to these schools beginning in July 1994--to, for example, 40 percent, the estimated number of HBCUs that could become ineligible would drop from 33 to 7.

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[2]In August we reported a total of 105 HBCUs. One school, Carver State Technical College, subsequently merged with Bishop State Community College. The Department now recognizes 104 HBCUs.

Table 1: HBCUs That Could Lose FFEL Eligibility in Fiscal Year 1994 at Varying Default Rate Thresholds

Dollars in millions

	Number of HBCUs that could become ineligible		FFEL volume	
Default rate threshold	August estimate	Revised estimate	Fiscal year 1991	Fiscal year 1992
25%	33	33	$44.6	$46.2
30	21	21	21.7	17.1
35	9	9	1.7	1.2
40	6	7	0.3	0.9

HBCUs SUBJECT TO STATE REVIEW OF STUDENT AID ELIGIBILITY

If HBCU default rates persist at their 1991 levels, 41 schools with default rates of 25 percent or more could be subject to state review of their continuing eligibility for student aid under title IV (see table 2).[3] This is an improvement from the 62 schools that could be subject to this provision based on the default rates in our earlier work. Another 26 HBCUs with defaults rates between 20 and 25 percent could also be subject to state review if they or their students rely heavily on federal financial aid.

[3]State-designated agencies must review a postsecondary institution that meets any of 11 criteria, including a cohort default rate of 25 percent or more, or a rate of 20 percent or more if it relies heavily on federal student aid (i.e., if at least two-thirds of its undergraduates enrolled on at least a half-time basis receive federal student assistance under title IV or if at least two-thirds of its institutional expenditures are paid for through federal student aid).

Table 2: HBCUs That Could Be Subject to a State Review in Fiscal Year 1994 at Varying Default Rate Thresholds

Dollars in millions

	Number of HBCUs subject to a state review		FFEL volume	
Default rate threshold	August estimate	Revised estimate	Fiscal year 1991	Fiscal year 1992
20%	79	67	$223.7	$200.8
25	62	41	132.9	87.1
30	46	28	99.5	30.6
35	25	18	28.9	10.4
40	17	14	8.5	8.1

POSSIBLE ADMINISTRATIVE DEFAULT THRESHOLD SANCTIONS

In addition to the cohort default rate thresholds specified in the Higher Education Act, the Department has established--through regulation--default rate thresholds that are applicable to all institutions, including HBCUs. One provision specifies that if a school has a default rate exceeding 20 percent, the Department may require it to prepare a comprehensive analysis of the causes of defaults by its students and describing efforts to reduce student loan defaults. The regulations specify that a cohort default rate above 20 percent for any fiscal year is an indication of impairment in an institution's ability to administer federal student aid programs properly. About two-thirds of the 104 HBCUs had fiscal year 1991 cohort default rates above 20 percent.

Among the reasons that the Department may initiate procedures to limit, suspend, or terminate an institution from participating in all federal student aid authorized by title IV, is if the school's default rate exceeds regulatory thresholds. The Department may initiate a limitation, suspension, or termination action against an institution if it has either

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-- a cohort default rate above 40 percent and has not lowered the rate by at least 5 percentage points from the default rate of the previous cohort or

-- a cohort default rate that exceeds 55 percent in fiscal year 1990, 50 percent in 1991, 45 percent in 1992, or 40 percent in later fiscal years.

To illustrate how these sanctions could be applied, the Department could initiate a limitation, suspension, or termination action against an HBCU with a cohort default rate of 56 percent for fiscal year 1990 and 51 percent for 1991. Although the school met the first criterion--a 5 percent decline in default rate--it failed to meet the second criterion--by exceeding the 50-percent fiscal year 1991 cohort threshold.

Table 3 shows the estimated number of HBCUs that could be subject to the Department's limitation, suspension, or termination procedures as a result of these two criteria.

Table 3: Estimated Number of HBCUs That Could Be Subject to Limitation, Suspension, or Termination Sanctions

Cohort fiscal year	Threshold default rate	Default rate over threshold	Default rate over 40 percent without a decline of at least 5 percent	Default rate over threshold or over 40 percent without a decline of at least 5 percent
1990	55%	4	11	11
1991	50	4	9	12
1992[a]	45	8	14	14
1993[a]	40	14	14	14

[a]Estimates for fiscal years 1992 and 1993 assume HBCU cohort default rates for these years will be the same as their respective rates for fiscal year 1991.

If recent default rate trends persist, the Department could initiate litigation to limit, suspend, or terminate as many as 14 HBCUs from participating in title IV student aid

programs. These sanctions could start with or without an extension of the legislative exemption HBCUs have from default rate restrictions on participation in the FFEL Program. As of December 31, 1993, the Department had not initiated limitation, suspension, or termination action against any institution, including HBCUs, solely because of its high default rate.

However, during fiscal years 1992 and 1993, the Department had limitation, suspension, or termination actions pending against four HBCUs. Reasons for initiating these actions included an institution's failure to submit audit reports or to take corrective actions required by prior audits. Two of the HBCUs had default rates above regulatory thresholds. At the end of fiscal year 1993, the Department had settled or withdrawn these actions and had imposed fines on the four HBCUs ranging from $3,000 to $10,000.

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Copies of this letter will be provided to appropriate congressional committees, the Secretary of Education, and other interested parties. If you have any questions or would like to discuss this material further, please call me at (202) 512-7014.

Linda G. Morra
Director, Education and
Employment Issues

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